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January 8, 1997

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Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY
DOCKET FILE COPY ORIGINAL

RE: Federal State Joint Board on Universal Service (CC Docket No. 96-45)

Dear Mr. Caton:

On Wednesday, January 8, 1997, David Gross and I, on behalf of AirTouch Communications, met with Karen Brinkmann and David Krech of the Wireless Bureau to discuss the above referenced proceedings. Please associate with the above-referenced proceeding.

Two copies of this notice are being submitted to the Secretary in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me at 202-293-4960 should you have any questions or require additional information concerning this matter.

Sincerely,

A handwritten signature in cursive script, reading "Kathleen Q. Abernathy".

Kathleen Q. Abernathy

Attachment

cc: Karen Brinkmann
David Krech

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AirTouch Communications, Inc.

**Universal Service
CC Docket No. 96-45**

Kathleen Q. Abernathy
David A. Gross
January 8, 1997

The FCC Must Reduce the Size of the Proposed Universal Service Fund

AirTouch analysis indicates that the taxes needed to finance the proposed programs could range from 6 to 12 percent of all total intrastate and interstate service revenues.

This is based on projected total revenue needs of between \$8.88 to \$19.43 billion.

The efficiency losses -- or deadweight losses -- associated with these taxes range from \$1 to over \$6 billion annually and these costs are in addition to the direct costs of the taxes.

Deadweight losses are costs that have no offsetting benefits.

The taxes proposed by the Joint Board have a large deadweight loss because 1) the additional revenues will have very little impact on improving penetration rates and services for U.S. consumers, and 2) raising the costs of long distance and wireless services will significantly suppress demand for those services.

The FCC Must Reduce the Size of the Proposed Universal Service Fund (Cont'd)

The FCC must take the efficiency costs of universal service programs (which are in addition to the resources spent providing the services) into consideration when deciding the scope of universal service programs.

The FCC must minimize deadweight losses and maintain competitive neutrality.

Universal Service Contributions Should be Assessed as Per-Line Charge Paid Directly by End Users

Public finance economists have developed two fundamental notions of fairness in assessing taxes:

- 1) Ability to pay doctrine which holds that those parties with a greater ability to pay, should pay more; and
- 2) Benefits doctrine which states that tax payments should be in proportion to the benefits derived from the funded programs.

In addition, taxes should be efficient and the principle of accountability should be embraced because it ensures the public knows what it is paying for and how the tax revenues are being spent.

Universal Service Contributions Should be Assessed as Per-Line Charge Paid Directly by End Users

A flat non-traffic sensitive, or lump-sum, contribution assessed on each access line complies with the above principles.

This could be done by having each subscriber to the PSTN make a flat monthly payment to universal service (excluding those who are eligible for subsidies).

This proposal can also take into account ability to pay.

Benefits of this proposal are:

- 1) End-user surcharge is administratively workable, accountable, fair and competitively neutral.
- 2) FCC should not distort consumption investment decisions by levying traffic-sensitive charges to recover non-traffic sensitive costs.

Universal Service Contributions Should be Assessed as Per-Line charge Paid Directly by End Users

This approach is superior to an indirect approach that relies on usage-based taxes, such as net revenues tax.

There is no link between subscriber income and monthly phone bills so notion that people who pay a lot for telephone service must be wealthy or reap greater benefits from universal service is wrong.

Pure lump sum payment is more efficient.

Can compare efficiency benefits of this approach in comparison to net revenues tax by looking at deadweight loss associated with the proposal.

Annual deadweight loss associated with this approach is \$242 million and while still significant it is tiny compared to net revenue losses that range from \$668 million to over \$6.4 billion.

The Commission Should Not Decrease the Subscriber Line Charge

Reducing the SLC would distort competition and harm consumers.

A reduction also conflicts with the FCC's long-standing goal to promote economic efficiency because the SLC is a non-traffic sensitive charge that recovers non-traffic sensitive costs in an economically efficient manner.

Empirical studies in this docket demonstrate that there are unlikely to be subscribership gains from a reduction in the SLC to offset the economic losses triggered by the failure to have a rate structure that reflects cost causation.

FCC should take up general issue of SLC in the access charge proceeding.

The Commission Should Not Expand Universal Service to Cover Inside Connections for Schools and Libraries

Requiring telecommunications providers to fund internal connections is not economically reasonable and contravenes statutory requirement in Section 254(h)(2)(A).

By providing discounts for inside wiring the FCC would be encouraging schools and libraries to choose a less efficient internal connection.

Also difficult to distinguish inside wire because the recommended decision would exclude personal computers while servers might well constitute inside wire.

FCC should instead focus on ensuring that universal service support requirements can fund those telecommunications services expressly required by statute.

State and Federal Universal Service Policies Must Be Coordinated

It is important that the FCC coordinate the taxation mechanisms supporting interstate and intrastate universal service policies.

Absent coordination the double taxation will have a substantial adverse impact on the economic efficiency of the universal service programs and on consumers.

The deadweight loss from taxation increases more than proportionately with an increase in the cumulative tax rates.

Coordination between the state and federal programs can best be achieved through offset mechanisms.

Telecommunications carriers should be permitted to deduct from their federal contributions the amount of any state-levied tax or the ability of a state to draw from the federal pool should be limited if a state universal service program exceeds a certain level.